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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 004690

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PLEASE PASS TO USTR

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TAGS: ECON EINV KBCT PGOV PREL IZ

SUBJECT: ARAB LEAGUE BOYCOTT AND IRAQ

REF: A) BAGHDAD 2080 B) BAGHDAD 2150 C) BAGHDAD 2383
D) USDOC 6445 E) BAGHDAD 4147 F) BAGHDAD
4067 G) BAGHDAD 1921 H) BAGHDAD 4115 I)
BAGHDAD 3303 J) BAGHDAD SBU O-I:11/25/05 K)
BAGHDAD 3979

Classified By: Ambassador Zalmay Khalilzad for reasons 1.4 (b) and (d)

¶1. (SBU) Action request, see para 11.

¶2. (C) Summary. Post has been working actively to engage the GOI on enforcement of the Arab League Boycott (ALB), since Iraq's status was changed to "under review" in June 2006. Post has discussed with the GOI the particular problems four U.S. companies (Pepsi, ABRO, Eli Lilly, and Wyeth Pharmaceuticals) face in doing or trying to do business in Iraq because of GOI official requests for assurances that the firms are complying with the ALB restrictions on trade with Israel. Because of the precarious political and security situation in Iraq and based on conversations with GOI officials, Post believes that these issues can be resolved on a case-by-case basis. Public steps, such as Treasury listing Iraq in the Federal Register, in accordance with Section 999(a)(3) of the International Revenue Code of 1986, or naming Iraq in USTR's annual National Trade Estimate (NTE) report will prove counterproductive when such listings hurl the issue into the political arena here. Post strongly believes that continued quiet diplomacy, focusing on individual cases, is the best approach to help U.S. firms do business. Post requests information on all cases brought to the attention of Washington agencies, so that we can seek resolution through appropriate GOI officials. End summary.

REVIEW OF PAST ENGAGEMENT WITH THE GOI ON ALB

¶3. (C) Post has vigorously protested to high-level GOI officials' enforcement of the ALB on more than a dozen occasions since the new government formed in May 2006. The Ambassador raised the issue of GOI enforcement of the ALB involving U.S. companies (Pepsi, ABRO, Eli Lilly and Wyeth Pharmaceuticals) with Prime Minister Maliki in June (ref A). Further, the Economic Minister-Counselor raised the ALB issue with Deputy Prime Minister (DPM) for Economic Affairs Barham Salih in June 2006. DPM Salih said that the GOI would review the broad issue of ALB enforcement on a case-by-case basis (ref B). During his visit in July 2006, Commerce Secretary Gutierrez also raised the problems created by the ALB with DPM Salih, as well as with the Minister of Industry and Minerals (Fawzi Hariri) and Minister of Trade (Abd al-Falah al-Soudani).

¶4. (C) While the Ministry of Trade does not enforce ALB in

its company registration process, Post raised the ALB problems with Minister al-Soudani to gain support from him on this issue. In a meeting July 2006, he said he is "ready to assist" to solve the issue, but that he cannot go it alone. He understood that enforcement of the ALB is a big deterrent for foreign investors. Al-Soudani, however, was reluctant to play a lead role on what is potentially a politically charged issue (ref C). Commerce Secretary Gutierrez also pressed this issue with al-Soudani later in July 2006. Other officials in the Department of Commerce also raised ALB with al-Soudani again in November 2006. The Minister reconfirmed that the MoT does not include ALB language in its registration procedures or enforce the ALB. He also agreed to raise the ALB issue with Deputy Prime Minister Barham Salih (ref D).

¶ 15. (C) In a November 2, 2006 meeting, when Deputy Economic Minister raised the problem, Deputy Minister of Industry and Minerals (MIM) Dr. Sami Araji said that he requested that the Deputy Prime Minister's Ministerial Economic Committee resolve the issue (ref E). He said that the GOI is fully aware of the seriousness of the problem and the negative impact on potential U.S. investment.

¶ 16. (C) On October 29, Post met with Dr. Yassin, the Director General (DG) of Kimadia (the procurement arm for the Ministry of Health), regarding the problems of two U.S. pharmaceutical companies, Eli Lilly and Wyeth Pharmaceuticals. These two companies were barred from tenders by Kimadia, because they do business with Israel. When pressed on the issue, Dr. Yassin said that he was open to removing this requirement, but suggested that U.S. companies could also "donate" medical equipment and other supplies to Iraq (ref F). (Dr. Yassin was "dismissed" by the Minister of Health October 30 and

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replaced with a Sadrish DG, Dr. Ammar).

¶ 17. (C) Post pressed the ALB issue with the Ministry of Foreign Affairs on at least three different occasions in the last six months. Post raised ALB with Foreign Minister Hoshyiar Zebari in May 2006 after the new government formed (ref G). The Minister noted that the question is very sensitive and that "we need to find a politically clever way to handle this issue." In a November 2006 meeting, Deputy Foreign Minister Labeed Abbawi said that letters to the MFA received from the Central Boycott Office (CBO) in Damascus are "ridiculous" and that the GOI does not take much interest in them (ref H). Deputy Foreign Minister Mohammed Hamoud Bidan also told us that the Boycott Office within the Ministry of Foreign Affairs is "dead of activity" (ref I).

PROGRESS MADE

¶ 18. (SBU) Patience has brought success in the past. In 2005, the Ministry of Oil resolved an ALB enforcement problem with General Electric and a supply contract. Although the Ministry of Oil initially insisted on including ALB language in the contract, the ministry later agreed to remove the language (ref J).

¶ 19. (C) During the debate on the investment law on the floor of the Council of Representatives (CoR) in October 2006, some members proposed adding language prohibiting investment from "an enemy state" (a characterization of Israel by a few Shia members of the CoR) (ref K). Post quietly engaged the CoR economic leadership as well as other members who understand U.S. concerns and the problematic language was dropped.

WAY FORWARD

¶ 10. (C) Post strongly believes that continuing our quiet

diplomacy will be the most effective way to remove ALB related roadblocks to U.S. firms here. We do have allies and need to avoid public actions that will make it more difficult for them to cooperate without losing sight of our goal of Iraq's formal withdraw from the ALB at an appropriate time. In a December 13 meeting, DPM Salih's Chief of Staff asked Acting Economic Minister Counselor to bring to his attention the particulars of ALB related problems. We requested copies of offending documents such as copies of the certifications that U.S. companies were asked to sign at the Ministry of Industry and Minerals Trademark Office or similar documents demanded by the Ministry of Health/Kimadia. DPM Salih's Chief of Staff noted that the issue was politically sensitive and that ministers would be reluctant to seek a formal solution. He emphasized that if the issue is made a public political issue, it would be counterproductive to resolving particular cases of ALB enforcement.

¶11. (SBU) Action request: In order to provide the information requested by the DPM's Office, Post requests that Washington agencies, including the Department of Commerce's (DOC's) Office of Anti-Boycott Compliance, provide us with the list of twenty-two additional companies that have contacted the DOC regarding ALB enforcement complaints and provide details in appropriate form for us to share with GOI officials regarding the specific issues and the ministries involved. Post also recommends that we use the U.S.-Iraq Business Dialogue as an additional opportunity for gaining Iraqi allies in our effort to ensure that the ALB is not a barrier to the growth of trade and investment in Iraq by U.S. firms.

KHALILZAD